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SUBJECT: SCENESETTER FOR CODEL COSTELLO

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SUMMARY  
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¶1. Embassy San Jose warmly welcomes CODEL Costello. Costa Rica has a history of political stability, social progress and commitment to peace and human rights which has been undermined in recent years by ineffective government institutions, growing domestic security problems, corruption scandals and dilapidated national infrastructure. The continuing increase in domestic crime, as well as water and sanitation issues, have tarnished Costa Rica's image as an environmental leader and tourist paradise. The administration of President Oscar Arias is slowly making progress to address these problems. A healthy economy and confidence in Arias's leadership (64 percent approval rating in January) give most Costa Ricans an optimistic outlook for 2008. Ratification and implementation of CAFTA is a central component of Arias's development agenda, but has proven to be a tough political challenge. Costa Rica will be the last CAFTA signatory to join the agreement, sometime in 2008. Costa Rica continues to be a reliable partner against transnational drug trafficking, but U.S. security assistance is vital. Targeted USG assistance in other areas can also help Costa Rica fuel its own development.

¶2. Costa Rica depends heavily on civil aviation, an issue of interest to CODEL Costello. Since a bilateral Open Skies Agreement was completed in 1997, passenger traffic has more than doubled, handled by nine U.S. carriers. In 2006, nearly 3.8 million passengers used Costa Rica's two major international airports. END SUMMARY.

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A STUDY IN CONTRASTS  
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¶3. On the one hand, Costa Rica stands out in Latin America as a country with a long democratic tradition and a history of political stability, social progress and commitment to peace and human rights. Costa Rica historically has invested in education and health care rather than national defense, and in general has followed economic policies that favor free enterprise and globalization. This has helped create a lower level of poverty (approximately 16% in 2007) than the norm for Latin America, and the most prosperous economy in Central America (gross national income per capita is \$6,980, above the Latin America average and on par with Chile and Mexico). The link between stable democracy and economic opportunity for the average citizen makes Costa Rica a potential example for the region.

¶4. On the other hand, Costa Rica's good name and self-image have suffered in recent years from ineffective government institutions, growing domestic security

problems, corruption scandals and dilapidated national infrastructure. As measured by the World Bank's 2008 index, Costa Rica's ease of doing business ranks 115th out of 178 countries in the world (down from 99th in 2006). Only 35% of students that begin school in the public system graduate from high school. Crime has been increasing by 15-20% per year, and has become the public's primary concern as measured in opinion polls. The judicial system is broken; of 37,000 robbery cases opened in 2005, for example, only three percent ended with a conviction.

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ARIAS: AMBITIOUS AGENDA; STRONG SUPPORT

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15. Despite these challenges, President Oscar Arias's ambitious goal for his 2006-2010 term is to prepare Costa Rica to be the first fully-developed country in Latin America by 2021. To accomplish this, his administration must implement the U.S.-Central America-Dominican Republic Free Trade Agreement (CAFTA); improve the business climate; enact meaningful fiscal reform; and begin to rebuild national infrastructure, improve domestic security and law enforcement, and repair the broken education and health care systems. These reforms are essential for Costa Rica's democracy to continue to deliver the promise of prosperity to its people. Arias's administration has already made some progress in these areas. His goals are fully consistent with the four pillars of USG policy in the hemisphere: consolidate democracy, promote prosperity, invest in people and protect the democratic state.

16. Approaching the half-way point of his administration, President Arias continues to receive high marks. The January 2008 CID-Gallup poll gave him a 64 percent approval rating, with the highest net positives of any Costa Rican administration at the same point in its term over the last 30 years. Based on the CID-Gallup data, a healthy economy and confidence in Arias's leadership are giving most Costa Ricans an optimistic outlook for 2008.

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ECONOMIC SNAPSHOT

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17. The country's GDP grew at over eight percent in 2006, a 15-year high, and neared seven percent in 2007. Foreign Direct Investment increased from \$861 million in 2005 to \$1.4 billion in 2006. Inflation has declined slightly from 14.4 percent in 2005 to 8.8 percent in 2007. The tourism industry remains the largest employer and earner of foreign exchange. Integrated circuits (produced at Intel's plant outside of San Jose), medical equipment, bananas, pineapples and coffee are Costa Rica's leading exports. Raw materials, consumer goods, capital equipment and petroleum are the major imports. The U.S. is Costa Rica's largest trading partner, with two-way trade totaling \$7.9 billion in 2006. Costa Ricans, like other Central Americans, are watching the U.S. economy closely, concerned about the regional repercussions from a serious downturn or recession. In fact, GDP growth is expected to slow in 2008.

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CIVIL AVIATION SNAPSHOT

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18. As a burgeoning tourist market, Costa Rica depends heavily on civil aviation, an issue of interest to CODEL Costello. Air travel has grown significantly since a bilateral Open Skies Agreement was completed in 1997. From 1996 to 2006, non-stop passenger service expanded coverage from four to thirteen U.S. cities; the number of U.S. airlines serving Costa Rica increased from three to nine; and passenger traffic more than doubled. In 2006, 3.4 million passengers used Juan Santamaria airport (in Alajuela, outside of San Jose) while 365,000 passengers used Costa Rica's other major international airport, Daniel

Obuder, in the northern city of Liberia.

¶9. At Juan Santamaria, American Airlines served 572,000 passengers in 2006, leading all U.S. carriers. Other major carriers serving the San Jose market include Continental, Delta, US Airways and Frontier. Continental led U.S. carriers at Daniel Obuder in 2006 with 118,000 passengers followed by Delta, American, US Airways and United Airlines. Juan Santamaria is also the nexus of the air cargo business, shipping 18,900 tons of goods in 2006 via carriers including UPS, DHL, and American Airlines. Three companies -- COOPESA, ADS, and AeroJet -- provide light aircraft maintenance of which COOPESA controls 80 percent of the market. Two companies -- COOPESA and Aeroman -- provide heavy maintenance with COOPESA specializing in Boeing repair and Aeroman specializing in Airbus repair.

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CAFTA: A CASE STUDY IN DYSFUNCTIONAL DEMOCRACY  
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¶10. Ratification and implementation of CAFTA is a central component of Arias's development agenda, (and one of the USG's top foreign policy objectives in Costa Rica). It has proven to be his administration's toughest political challenge for three reasons:

-- First, the previous government took little action beyond signing the agreement in August 2004 and submitting it to the legislature in October 2005.

-- Second, the country has been divided on the issue, as reflected in the close results (52 percent yes, 49 percent no) of the October 2007 national referendum which ratified the agreement (and largely silenced the CAFTA opposition).

-- Third, the diffuse political structure of the 57-seat national legislature (which includes seven parties and two independents), plus complex, arcane rules and procedures which favor obstructionism (and which often require constitutional review of legislation) have delayed the process throughout. Opposition legislators, for example, at times buried legislation under thousands of motions, or challenged legislative rules of order in the Supreme Court.

¶11. Using its 38-seat (two-thirds majority) pro-CAFTA coalition, the Arias administration made more progress on CAFTA over the last three months than the previous administration did in four years. However, Costa Rica will still be the last CAFTA signatory to join the agreement, probably well after the March 1, 2008 entry-in-force deadline stipulated in the agreement. (The other parties have agreed to Costa Rica's delayed entry.) As of late February 2008, only two of 12 items of CAFTA implementation legislation had been signed into law, with the other bills in work in the legislature or under review by the Constitutional Chamber of the Supreme Court.

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SECURITY: DOING A LOT WITH A LITTLE, BUT HELP NEEDED  
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¶12. Despite limited security resources, Costa Rica continues to be a reliable partner against transnational drug trafficking. Under a bilateral maritime agreement signed in 1999 (the first in the region) U.S.-Costa Rican joint narcotics operations have seized more than 55 tons of illicit narcotics since the Arias administration took office, including over 30 tons of cocaine and 4.5 tons of marijuana in 2007 alone. Unfortunately, these record seizures also reflect the tremendous narcotics flow through the region. Illegal migrants, especially from China, are also smuggled via land or sea through Costa Rican territory.

¶13. U.S. security assistance is vital to strengthen Costa Rica's ability to fight domestic and regional threats, especially as the nexus between drug trafficking and crime

becomes clearer. Marking a significant departure from his past attitude, President Arias himself asked the Embassy for help, but funding has been problematic. Primarily due to heavy budgetary demands elsewhere, the State Department counter-narcotics program in Costa Rica received only \$31,000 in funding between FY 2007-2009. This makes the security and counter-narcotics assistance in the pending Merida Initiative all the more important. With the right assistance and training, Costa Rica can serve as a regional model for combating drug trafficking, money laundering and violent domestic crime.

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CONSULAR SNAPSHOT

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¶14. The continuing increase in domestic crime has tarnished Costa Rica's image as a tourist paradise. Rising crime has also increased the workload of the Consular Section in U.S. Embassy San Jose, which replaces more stolen passports annually than any other in the world. Two-thirds of tourists visiting Costa Rica annually are American citizens. (More than 700,000 Americans vacationed in Costa Rica in 2006, and between 30,000 and 50,000 resided there.) The number of Americans traveling to or residing in Costa Rica rose in 2007-2008 and is expected to increase again in 2009. The Consular Section is also on track to process 600,000 non-immigrant visa applications in ¶2008.

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ENVIRONMENTAL SNAPSHOT

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¶15. Costa Rica has a well-founded reputation for environmental protection, with nearly 25 percent of the country preserved in national parks, a commitment to sustain the country's extraordinary biological diversity, model environmental legislation, a well-developed eco-tourism industry and an activist international agenda. However, the country's success with "green" issues has not been matched on "brown" issues, especially urban water supplies, sanitation and solid waste disposal. An antiquated infrastructure system and a lack of resources dedicated to law enforcement, control and monitoring, for example, means that less than three percent of the country's sewage is treated. Other major environmental challenges include an increased dependence on fossil fuels for energy generation, overdevelopment in marine and coastal zones, unorganized urban development, and air contamination.

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FOREIGN POLICY: THE UN, NEW FRIENDS AND OLD RIVALS

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¶16. Costa Rica was elected as a non-permanent member of the UN Security Council (UNSC) for the 2008-2009 term. The Arias administration sees this as a prerequisite to furthering its primary international goals, which include conventional disarmament, environmental protection, foreign aid reform (with more assistance directed to middle income countries like Costa Rica), and improved UN operations. Costa Rica was the first government in Central America to recognize China (in June 2007), and the "state" of Palestine (in February 2008).

¶17. Arias has been one of the very few Latin American leaders to speak out for self determination in Cuba and to openly worry about loss of democratic institutions in Venezuela. This has drawn fire from both countries and from Nicaragua. Costa Rican-Nicaraguan relations have been prickly at times, in particular since Daniel Ortega returned to power in 2007. The Arias Administration is handling relations carefully, given that 300,000-500,000 Nicaraguans are estimated to be in Costa Rica. This work force harvests coffee and performs other manual labor largely shunned by Costa Ricans.

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USG ASSISTANCE SNAPSHOT

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¶18. As a "sustaining partner" according to the State Department's foreign assistance scale, Costa Rica should be able to fuel much of its own development. Targeted USG assistance is intended to help, however. As a CAFTA signatory, Costa Rica is eligible for a share of \$60 million in regional trade, environmental and labor capacity building funding from FY 2005-2009. Under the Tropical Forest Conservation Act (TFCA) agreement concluded in October 2007, Costa Rica will be eligible for targeted debt forgiveness that, by 2024, will generate \$26 million to protect fragile forest areas. The Merida Initiative, if approved, would give Costa Rica a share of \$150 million in regional security assistance from FY 2008-2010. USG assistance from all sources totaled approximately \$6.3 million in FY 2006.

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